

AR31



Bow Valley Industries Ltd.

Annual Report 1972





Officers

DARYL K. SEAMAN, President
BYRON J. SEAMAN, Senior Vice-President
HENRY C. VAN RENSSELAER, Vice-President, Finance
J. RICHARD HARRIS, Vice-President, Exploration
DONALD R. SEAMAN, Vice-President
H. DONALD BINNEY, Vice-President
ROBERT J. PHIBBS, Vice-President
H. KEITH LAZELLE, C.A., Secretary-Treasurer

Directors

FREDERIC J. AHERN, Vice-President, The United Corporation, New York, U.S.A.
H. DONALD BINNEY, Vice-President, Bow Valley Industries Ltd., Calgary, Alberta
J. RICHARD HARRIS, Vice-President, Exploration, Bow Valley Industries Ltd., Calgary, Alberta
WILLIAM A. HOWARD, Q.C., Barrister and Solicitor, Calgary, Alberta
WILLIAM S. HULTON, C.A., Financial Consultant, Vancouver, B.C.
JAMES S. PALMER, Barrister and Solicitor, Calgary, Alberta
DARYL K. SEAMAN, President, Bow Valley Industries Ltd., Calgary, Alberta
BYRON J. SEAMAN, Senior Vice-President, Bow Valley Industries Ltd., Calgary, Alberta
DONALD R. SEAMAN, Vice-President, Bow Valley Industries Ltd., Calgary, Alberta
D'ALTON L. SINCLAIR, Financial Consultant, Toronto, Ontario
HENRY C. VAN RENSSELAER, Vice-President, Finance, Bow Valley Industries Ltd., Calgary, Alberta

Head Office

630 - 6th Avenue South West, Calgary, Alberta

Transfer Agents

Common Stock

GUARANTY TRUST COMPANY OF CANADA, Calgary, Toronto, and Vancouver
THE BANK OF NEW YORK, New York, U.S.A.

Preferred Stock, Series A

THE ROYAL TRUST COMPANY, Calgary, Winnipeg, Toronto, and Montreal

Registrars

Common Stock

GUARANTY TRUST COMPANY OF CANADA, Calgary, Toronto, and Vancouver
SCHRODER TRUST COMPANY, New York, U.S.A.

Preferred Stock, Series A

GUARANTY TRUST COMPANY OF CANADA, Calgary, Winnipeg, Toronto and Montreal

Auditors

PRICE WATERHOUSE & CO., Calgary, Alberta

Legal Counsel

HOWARD, MOORE, DIXON, MACKIE & FORSYTH, Calgary, Alberta
BURNET, DUCKWORTH, PALMER, TOMBLIN, O'DONOGHUE, BEATTIE & HAIGH, Calgary, Alberta
PAUL, WEISS, RIFKIND, WHARTON & GARRISON, New York, U.S.A.

Bankers

THE ROYAL BANK OF CANADA, Calgary, Alberta

Front cover features photo of Neptune 7 drilling the exploratory well 25/4-1 in the Norwegian Sector of the North Sea. The well is located in Block 25/4 in which Bow Valley has an interest.



New Arctic Joint Venture Rig on display at the National Petroleum Show in Calgary during May 1972

HIGHLIGHTS

	<u>1972</u>	<u>1971</u>
Gross income	\$48,192,977	\$40,204,002
Depreciation and depletion	\$ 3,756,960	\$ 3,482,156
Income before extraordinary items	\$ 1,013,958	\$ 622,491
Extraordinary items	\$ 449,514	\$ (641,510)
Net income (loss)	\$ 1,463,472	\$ (19,019)
Shares outstanding at year end	4,666,939	4,630,484
Cash flow	\$ 4,585,968	\$ 3,805,003
Cash flow per common share*	\$.99	\$.84
Net income (loss) per common share*	\$.19	\$ (.13)

*Based on the average number of shares outstanding during the respective years (1972—4,651,669; 1971—4,544,507) and after dividend requirements on Series A Preferred Shares and Second Preference Shares.

ANNUAL GENERAL MEETING

The 1972 Annual General Meeting of the Shareholders of Bow Valley Industries Ltd. will be held in the Banff Suite of the Calgary Inn at 10:00 a.m. September 26, 1972.

*Executive Committee of
the Board of Directors in session
L. to R. - J. Richard Harris, Byron J.
Seaman, H. Keith Lazelle present as
secretary-treasurer of the company,
Daryl K. Seaman, William A. Howard, Q.C.,
Donald R. Seaman, Henry C.
Van Rensselaer, James S. Palmer.
Missing - H. Donald Binney.*



President's Message

Fiscal 1972 was characterized by a good recovery in Bow Valley's earnings and by exploration developments in the Mackenzie Delta of the Canadian Arctic and in the North Sea of particular interest to your company.

Bow Valley's income before extraordinary items in the latest year rose to \$1,013,958 compared to \$622,491 in fiscal 1971, while cash flow amounted to \$4,585,968, or \$0.99 per common share, versus \$3,805,003, or \$0.84 per common share, a year earlier.

Exploration activity in the Mackenzie Delta accelerated during the year. Imperial Oil successfully followed up its gas discovery at Taglu and made a further multi-zone gas discovery at Mallik three miles from the nearest Bow Valley acreage. On July 11, 1972, Imperial made the following press release on the status of four additional wells drilling in the Mackenzie Delta and one test on the Tuk Peninsula:

"Imperial Oil today released the following report on its current drilling program in the Beaufort Sea area of the Northwest Territories. These include four tests in the Mackenzie Delta and one test on the Tuk Peninsula.

Taglu D-55, four miles northwest of the Taglu G-33 gas discovery well, is drilling ahead at 11,832 feet after setting 7 $\frac{5}{8}$ " casing at 10,454 feet. D-55 has encountered at least two hydrocarbon-bearing sands, believed to be gas. Testing will be carried out after completion of the well to determine the significance of these sands.

Taglu C-42, two miles southwest of Taglu G-33, has set 7 $\frac{5}{8}$ " casing at 11,408 feet. C-42 has also encountered multiple indications of gas-bearing sand which will be tested upon completion of drilling.

Mallik A-06, four miles southeast of Mallik L-38, is drilling at 10,278 feet with 9 $\frac{5}{8}$ " casing set at 9,441 feet. Mallik L-38 was announced as a gas discovery earlier in the year although it was abandoned because of mechanical difficulties prior to reaching target depth. Mallik A-06 has also encountered shows of hydrocarbon-bearing sand believed to be gas which will be tested for significance upon completion of drilling.

Ivik J-26, 12 miles northeast of Mallik L-38 and 21 miles northeast of Taglu G-33 is preparing to drill around lost drill tools at 9,880 feet. Ivik also has encountered a number of sands believed to be gas bearing which will be tested following well completion.

The Atertak E-41 well on the Tuk Peninsula, which had recovered oil-stained cores just below the 4,000-foot level during drilling, is being abandoned. Atertak E-41 is located four miles northeast of Imperial's Mayogiak P-17 well which discovered crude oil in June, 1971. After reaching total depth Imperial attempted several unsuccessful production tests of the Atertak well. The test results are considered to be due to the effect of drilling fluids blocking flow from the formation. The company plans to continue its drilling program in the area after freeze-up."

Imperial's drilling results, coupled with a gas discovery by Gulf-Mobil farther south in the Delta, ensure a further increase in drilling activity in the Delta for the 1972-1973 winter season. Additional rigs are being transported to the area this summer and at least twelve drilling rigs should be active after freeze-up. Of particular interest to Bow Valley is the planned construction of two islands as drilling platforms by Imperial in the shallow waters offshore. Both of these islands are within three miles of Bow Valley's permits and, when drilling commences, should provide an evaluation of the sediments in the area.

A major technical breakthrough was achieved this winter in obtaining seismic records of good quality by on-ice shooting using specialized equipment. Bow Valley conducted some of this shooting on its Delta lands and is encouraged by the results. Bow Valley has also seen some seismic results on other acreage in the onshore and shallow-water offshore areas of the north Delta. It is clear that the general area has a number of attractive drilling prospects. By this time next year, a better evaluation of the potential of the northern Delta should be possible as wells will have been drilled farther to the west and north.

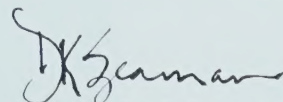
While Bow Valley's management is keenly aware of the deep interest which the company's shareholders have in arrangements which will be made for the exploration and, in the event of discoveries, the development of Bow Valley's Delta acreage, it is not deemed in the company's best interests to say anything further at present beyond the statement that discussions are currently in progress.

Further drilling in the Frigg gas field in the Norwegian sector of the North Sea during the year resulted in the delineation of major gas reserves. Bow Valley has an interest in the adjacent block south of the Frigg block, and a well is currently being drilled on Bow Valley's acreage to evaluate a separate structure lying on these lands. On the U.K. side of the North Sea, Shell and Esso encountered oil and gas, which on the basis of present evidence does not appear to be commercial, in a well drilled in proximity to acreage in which Bow Valley has a 35% interest. Shell-Esso plan further evaluation and testing of the well.

Mr. Thatcher L. Townsend, Jr. has resigned from the Board of Directors due to the pressure of his other business responsibilities. The company appreciates the many contributions which Mr. Townsend made to the success of Bow Valley.

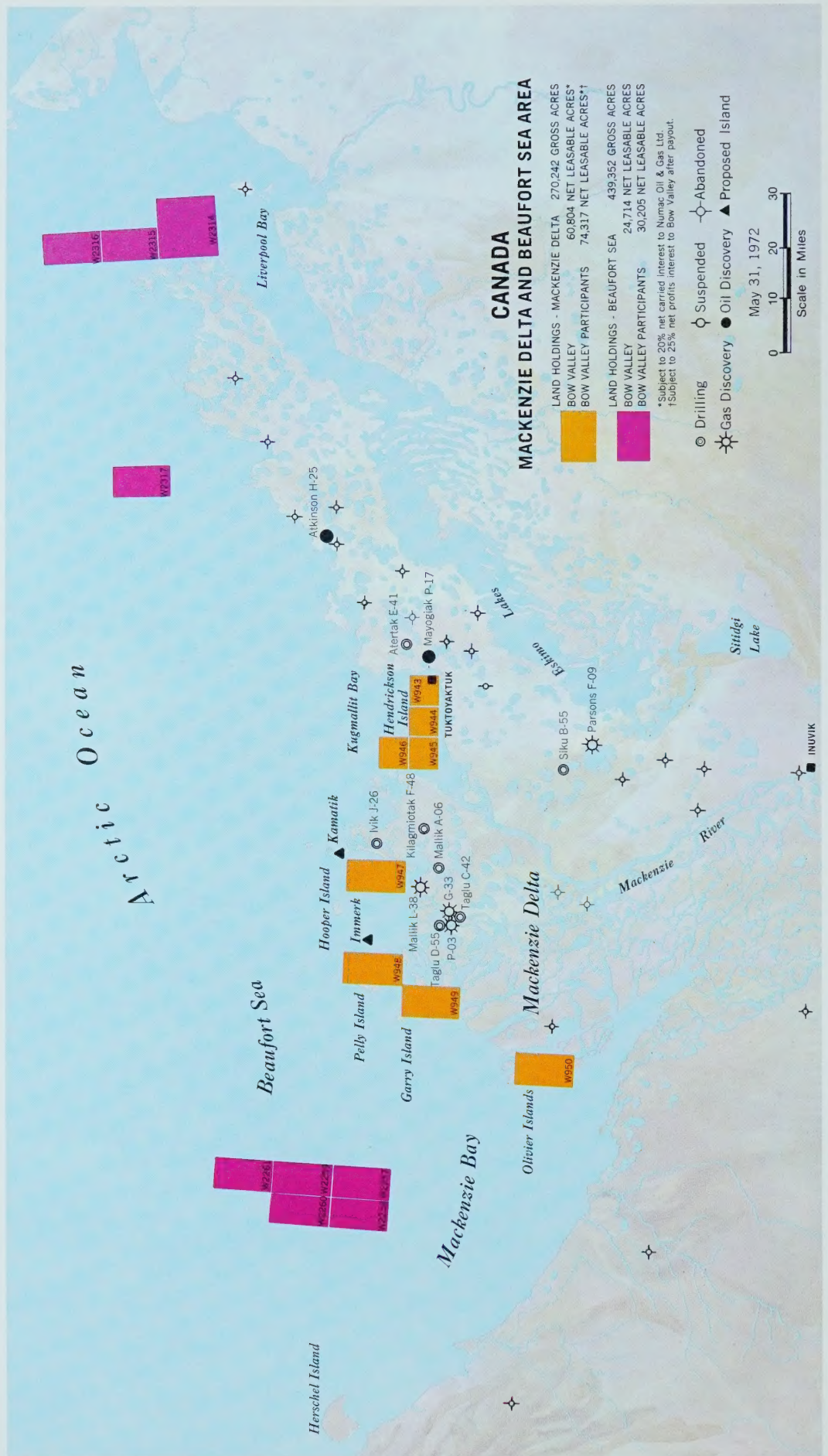
The trend to better earnings achieved by the service group of companies was most heartening and we are encouraged that this performance can be continued into the new fiscal year.

On behalf of the Board of Directors, I wish to express appreciation to all of Bow Valley's personnel for their efforts which made possible the results presented in this report.



D. K. Seaman,
President

August 18, 1972





Drilling operations around the clock

Summary of Oil and Gas Activity

EXPLORATION

MACKENZIE DELTA

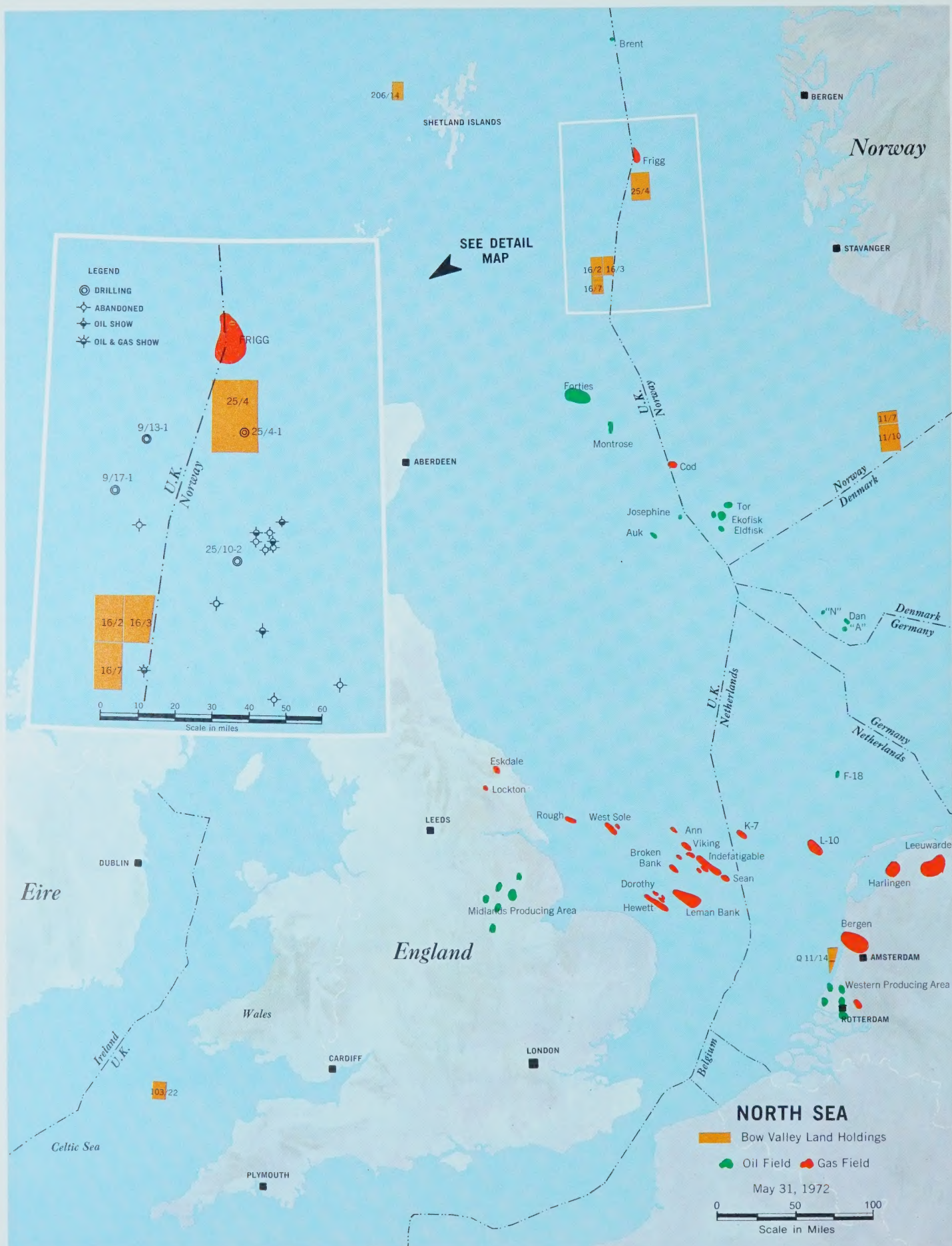
Oil and gas exploration activity in the Mackenzie Delta continued to increase during the year. Imperial Oil made a multi-zone gas discovery at Mallik L-38 nine miles northeast of its 1971 gas discovery at Taglu G-33 and three miles south of Bow Valley's Permit No. W-947. The L-38 opened up several hundred feet of gas in two separate groups of reservoirs. Imperial's second success of the past winter, the Taglu West P-03, is three miles west of the G-33 gas discovery. The operator reported that the P-03 penetrated a reservoir section similar to that at the G-33 and that both wells will be capable of gas production at high rates. Gulf Oil Canada Limited and Mobil Oil Canada Ltd. discovered gas and condensate at the 9,300-foot level at their Parsons F-09 located 31 miles south of Bow Valley's nearest acreage.

In the latest round of drilling in the Delta area, Imperial has announced that oil-stained sandstone was recovered in cores just below 4,000 feet from its Atertak E-41 five miles northeast of its Mayogiak P-17 oil discovery and seven miles east of Bow Valley's Permit No. W-943. At May 31, 1972, Imperial was drilling two further tests in the Taglu area, the Taglu D-55 and the Taglu C-42, one five-mile stepout to the Mallik discovery at Mallik A-06, and the Ivik J-26, a wildcat four miles east of Bow Valley's Permit No. W-947. On the same date, Gulf-Mobil had two rigs drilling at Siku B-55 and Kilagmiotak F-48, the latter located nine miles from Bow Valley's acreage. Imperial has also announced the planned construction of two islands for drilling platforms this summer: Kamatik, three miles from Bow Valley acreage, and Immerk, three miles from another Bow Valley permit.

During the past winter, further experimentation on Bow Valley's acreage involving on-ice seismic shooting techniques resulted in a significant technological breakthrough making possible the acquisition of seismic data of excellent quality in the shallow-water areas of the Mackenzie Delta. A 500-mile, on-ice, detailed seismic program has been scheduled in connection with the work program being developed for Bow Valley's Delta acreage in the 1972-1973 winter season.

The continued discovery of hydrocarbons in the Mackenzie Delta has resulted in increased activity, particularly in the north-central part of the Delta, and it appears that at least twelve drilling rigs will be active next winter. Recent statements released by Imperial, the various Arctic pipeline research groups and the Canadian Government indicate that an early application may be made for a large-diameter pipeline to deliver natural gas from the Delta to energy markets in Canada and the United States.

Bow Valley, together with its Mackenzie Delta participants, is now carrying on discussions with a number of major oil companies and gas transmission companies with respect to a program for the exploration, and, in the event of discoveries, the development of Bow Valley's Delta lands. Discussions to date indicate that Bow Valley need not anticipate difficulty in obtaining financial, technical and marketing assistance from industry on favourable terms.



CANADA

ARCTIC ISLANDS AREA

Panarctic Land Holdings

Bow Valley Land Holdings

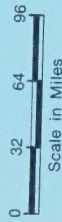
Gas Discovery

Drilling

Abandoned

Suspended (Oil)

May 31, 1972





Bow Valley personnel discussing exploration project

NORTH SEA

Bow Valley received formal notification of the awarding of Block 25/4 in the Norwegian sector of the North Sea during June 1971. This block, comprising 129,480 acres, is immediately south of the large Frigg gas field discovered by A/S Petronord. Marine seismic programs previously conducted over Block 25/4 have shown the existence of drillable structures. Bow Valley and its partners subsequently entered into joint venture agreements with the Norwegian Government and A/S Petronord to drill Block 25/4. Drilling operations on this block using the semi-submersible rig "Neptune 7" should commence in early July 1972. The first well will be drilled to about 12,000 feet. Bow Valley holds a 13 1/3 percent working interest in the licence area which is subject to a reduction to 8 percent if the Norwegian Government elects to subscribe to its full carried working interest in the event of a discovery.

As required under the terms of its 1965 licence agreement, Bow Valley and its industry partners relinquished 25 percent of the acreage in Blocks 11/7 and 11/10 in the Norwegian sector of the North Sea on August 31, 1971. It is presently anticipated that the balance of this acreage, on which a dry hole was drilled during 1969, will be dropped at the next statutory relinquishment date of August 31, 1972.

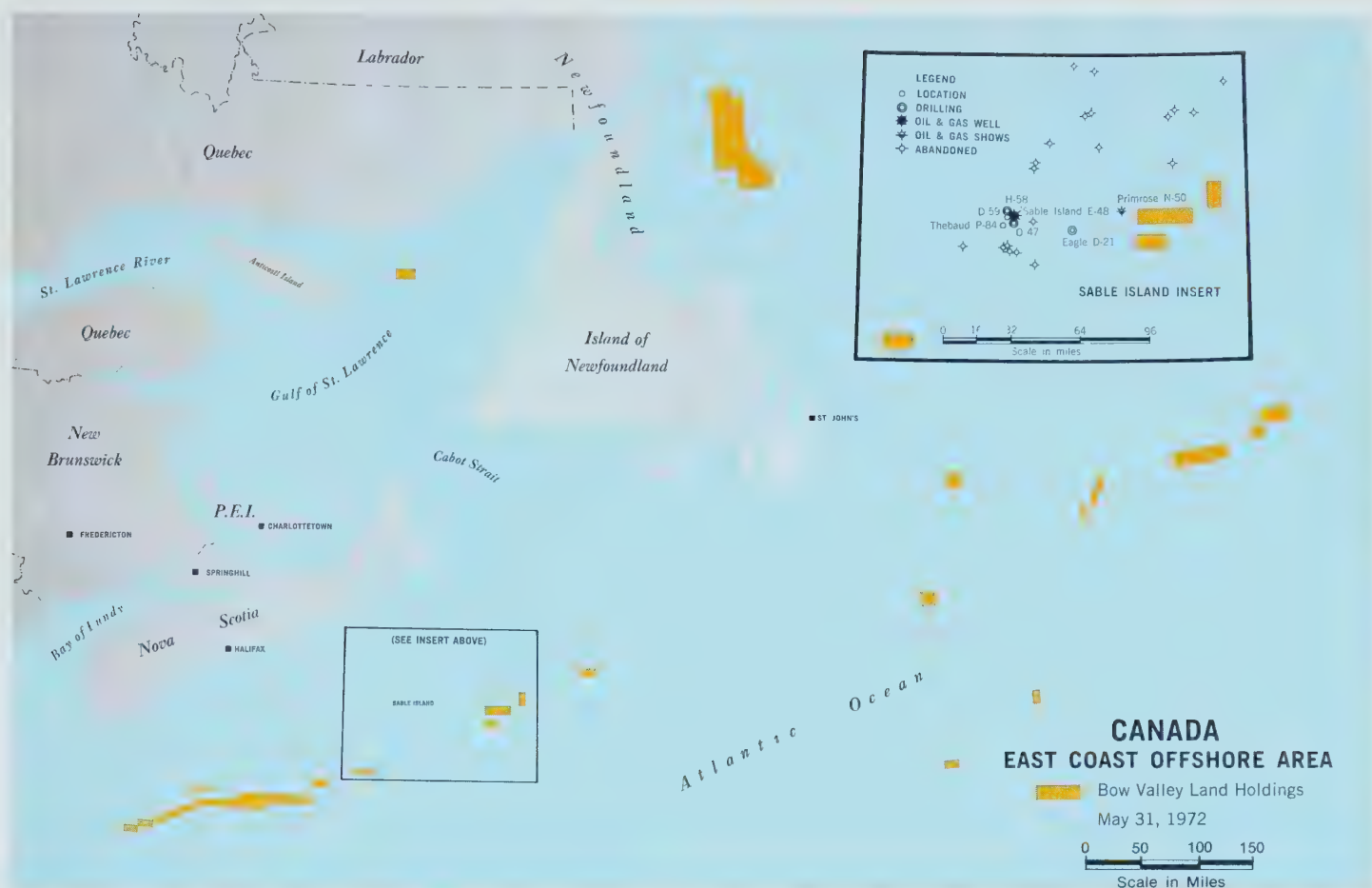
In the United Kingdom sector of the North Sea, Bow Valley is presently conducting further detailed marine seismic shooting over Blocks 16/3 and 16/7 which were awarded during 1970. Shell-Esso have announced that their well, drilling in an adjoining block, has tested both gas and oil. Although of doubtful commercial value based upon present evidence, this well has confirmed the presence of hydrocarbons in a previously untested area of the North Sea. Subject to rig availability, Bow Valley anticipates that drilling on its blocks may commence during the summer of 1973.

In March 1972, the U.K. Government awarded Bow Valley, in participation with other companies, Block 16/2 in the North Sea, Block 206/14 in the North Sea offshore from the Shetland Islands and Block 103/22 in the Celtic Sea. These blocks contain 167,138 acres in total. Bow Valley holds a 35 percent interest in Block 16/2 and an 8 1/3 percent interest in Blocks 206/14 and 103/22. A marine seismic program was being conducted over Block 16/2 at the close of the 1972 fiscal year, and further marine seismic programs are planned for the other two blocks in the near future.

Marine seismic surveys were conducted over the company's Blocks Q/11 and Q/14 in the Dutch sector of the North Sea during the past year with encouraging results. Applications for further offshore concessions in this area were submitted to the Dutch Government in May 1972; however, notification of final awards is not expected for several months.

ARCTIC ISLANDS

Further exploration successes were achieved in the 1972 fiscal year by Panarctic Oils Ltd. in which Bow Valley holds a 2.24 percent interest. A gas discovery was made at Kristoffer Bay G-06. In addition to its participation in Panarctic, Bow Valley holds a 10 percent working interest in a permit five miles west of this discovery. Panarctic also had encouraging showings from other wells drilled during the past year including oil recoveries at Romulus C-42 on Ellesmere Island and at Thor P-38 on Thor Island. A stepout well



SUMMARY OF EXPLORATORY ACREAGE AS OF MAY 31, 1972

Location		Type of Ownership	Type of Interest					
			Working Interest (1)		Royalty Interest (2)		Other Interests (3)	
			Gross Acres	Net Acres	Gross Acres	Net Acres	Gross Acres	Net Acres
A. CANADA								
1. Alberta	Leases	1,046,863	594,388	361,576	6,947	157,417	28,313	
	Petroleum and Natural Gas Reservations	483,944	226,305	202,899	730	72,096	12,442	
	Petroleum and Natural Gas Permits	119,728	79,226	—	—	—	—	
	Drilling Reservations	28,160	10,650	—	—	—	—	
	Natural Gas Licences	13,440	3,360	—	—	—	—	
2. Atlantic East Coast	Exploratory Permits	2,755,060	343,182*	1,603,867	5,346*	177,818	2,681*	
3. Arctic Islands	Exploratory Permits (4)	2,127,302	123,539*	881,394	3,187*	363,918	38,335*	
4. Beaufort Sea	Exploratory Permits	439,352	24,714*	—	—	439,352	7,552*	
5. British Columbia	Leases	119,734	27,733	—	—	15,234	3,338	
	Petroleum and Natural Gas Permits	42,789	32,092	—	—	32,092	7,522	
6. Hudson Bay	Exploratory Permits	694,034	138,808*	898,431	8,984*	—	—	
7. Hudson Strait	Exploratory Permits	30,676	5,368*	—	—	—	—	
8. Mackenzie Delta	Exploratory Permits	270,242	60,804*	—	—	270,242	18,579*	
9. Saskatchewan	Leases	34,756	16,956	533	32	8,959	365	
	Petroleum and Natural Gas Permits	63,520	25,408	—	—	—	—	
10. Yukon-Northwest Territories	Exploratory Permits	235,046	41,431*	119,688	898*	—	—	
TOTAL CANADA		8,504,646	1,753,964	4,068,388	26,124	1,537,128	119,127	
B. FOREIGN								
1. Abu Dhabi	Concession Areas	778,381	155,676	—	—	—	—	
2. Indonesia	Petroleum Sharing Contract Areas	30,121,132	6,496,103	—	—	—	—	
	Technical Assistance Contract Areas	67,753	67,753	—	—	—	—	
3. Italy	Exploration Permits	247,831	18,606	124,283	777	—	—	
4. Maldiv Islands	Petroleum Exploration Licence	30,201,173	3,775,147	—	—	—	—	
5. Netherlands	Exploration Licences	45,995	3,106	—	—	—	—	
6. Norway	Production Licences	332,699	46,223	—	—	—	—	
7. South Africa	Prospecting Lease	6,890,240	817,871	—	—	—	—	
8. Tunisia	Permit	185,774	61,925	—	—	—	—	
9. United Kingdom	Production Licences	277,545	66,669	—	—	—	—	
TOTAL FOREIGN		69,148,523	11,509,079	124,283	777	—	—	
TOTAL WORLD		77,653,169	13,263,043	4,192,671	26,901	1,537,128	119,127	

(1) Gross acres represent the total of the acreage in which the company has varying working interests. Net acres represent the company's interest in the gross acres.

(2) Gross acres represent the total of the acreage in which the company has varying royalty interests. Net acres represent the company's interest in the gross acres.

(3) Gross acres represent the total of the acreage in which the company has varying net profit and reversionary interests. Net acres represent the company's interest in the gross acres.

(4) Excluding acreage owned by Panarctic Oils Ltd. As of May 31, 1972, Panarctic held working interests in 60,439,416 gross acres and 42,342,941 net acres. Bow Valley holds a 2.24 percent interest in Panarctic.

* These figures have been adjusted by a reduction of 50 percent to reflect the revocation of Oil and Gas Land Order 1-1961 effective April 15, 1970.

Drilling Activity - Fiscal 1972

Exploratory Wells						
Total		Oil		Gas		Abandoned
Gross	Net	Gross	Net	Gross	Net	Gross Net
38	13.52	3	0.61	16	6.30	19 6.61
Development Wells						
Total		Oil		Gas		Abandoned
Gross	Net	Gross	Net	Gross	Net	Gross Net
18	8.88	0	0	18	8.88	0 0

Production Summary

	Fiscal year ended May 31st,		
	1972	1971	1970
Crude oil (barrels) . . .	657,389	697,002	686,985
Natural gas liquids (barrels)	31,738	33,952	25,213
Natural gas (Mcf)	5,110,090	4,624,101	4,940,098

(Note: The above figures are net after royalty and include Bow Valley's net profits interest).

drilled seven miles southeast of the Drake Point discovery of 1969 on Melville Island confirmed the presence of the uppermost gas sand of the discovery well.

As a result of discoveries made in the Arctic Islands during the past two years, the Canadian Government recently announced plans to conduct detailed aerial surveys of two proposed pipeline routes to transport natural gas from this frontier area to the expanding energy markets of Canada and the United States.

WESTERN CANADA

Alberta continues to be an area of significant exploration and development activity for Bow Valley and, at present, accounts for over 80 percent of the company's proven reserves of oil and gas. In the Lyle Lake - Calling Lake area of northeastern Alberta, the company drilled and completed 10 additional gas wells during the winter drilling season bringing to 28 the number of shut-in gas wells now completed in the area and available for market. Present plans call for the drilling of about 20 additional exploratory and development wells in this area during the coming winter season. Bow Valley further increased its net interest in the project shortly before the close of the fiscal year by acquiring an interest in the properties owned by one of its partners. At May 31, 1972, the company held approximately a 40 percent interest in 440,000 acres in the Lyle Lake - Calling Lake area.

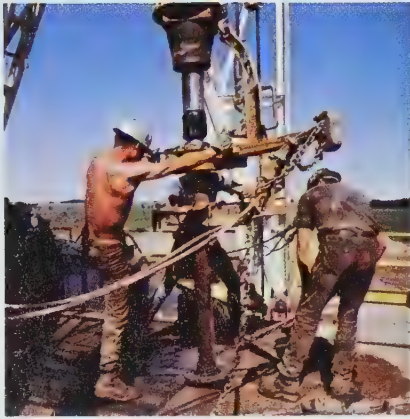
In the Craighend area of Alberta, Bow Valley completed construction of a gathering system and compressor station in November 1971. Production from the field has averaged 10 MMcf/day since start-up in November 1971 and plans are now being made to connect four additional wells to this system to increase production to 12 MMcf/day by October 1972.

At Hamilton Lake, where Bow Valley has a 17.822 percent interest in the Provost Viking "C" Unit, an agreement has been reached with the company's partners to complete a full five-spot waterflood injection program to further increase oil production from the unit.

During the past fiscal year Bow Valley negotiated a total of 25 farmouts on some of its undeveloped oil and gas lands in Alberta. One of these farmouts, in the Medicine Hat area of Alberta, carries a commitment to drill up to 80 wells and construct gathering, compression and delivery facilities at no cost to Bow Valley to earn 100 percent of Bow Valley's interest in these lands, subject to a substantial royalty to payout which may then be converted by Bow Valley to a 50 percent working interest. As a further condition, it was agreed that Bow Valley's contract services would be utilized to perform the obligations under the agreement. At May 31, 1972, a total of 20 wells had been drilled under the farmout and all had been completed as shut-in Milk River gas wells.

In the Rapdan area of Saskatchewan, Bow Valley participated in the drilling of one oil well which is presently producing at a rate of over 100 bbls/day. Two subsequent confirmation oil wells were completed shortly after the close of the 1972 fiscal year. Bow Valley holds an overriding royalty convertible to a 50 percent working interest after payout in the initial discovery well and a 50 percent working interest in the two confirmation wells. Further drilling is planned.





Drilling crew preparing to pull pipe

ATLANTIC EAST COAST

In July 1971, Bow Valley added to its acreage holdings off the Canadian East Coast by acquiring an eight percent working interest in 1,074,000 acres. Part of this recent acreage acquisition lies within 40 miles of Sable Island where Mobil Oil Canada Ltd. and Texas Eastern Transmission Corporation discovered oil, natural gas and condensate in their well Mobil Tetco Sable Island E-48. Drilling activity in the area remained high during the fiscal year; one further well, the Shell Primrose N-50, was cased for evaluation of gas and oil showings which have subsequently been reported as non-commercial by the operator. This well is six miles west of Bow Valley's acreage. During the 1972 fiscal year, Bow Valley participated in a 100-mile exclusive marine seismic program and a further program of 725 miles of non-exclusive marine seismic to evaluate additional acreage to the east on the Grand Banks. The data is presently undergoing processing and interpretation.

ABU DHABI

Following abandonment of the Zaboot No. 1 at 12,564 feet in Concession N in the Arabian Gulf offshore from Abu Dhabi, Bow Valley and its partners undertook a detailed marine seismic program of 1,626 miles in the same concession area. If the data which is currently being processed and interpreted proves favourable, further drilling on the property is anticipated.

INDONESIA

On the Mentawai block off the southwestern coast of Sumatra, in which Bow Valley held a 12 1/2 percent interest, agreement was reached with Marathon Oil Company whereby Marathon could earn up to a 50 percent interest in the block over a three-year period by carrying out the exploratory activities required under the production sharing contract with Pertamina, the Indonesian national oil company. Marathon drilled two offshore wells in the southeastern portion of the Mentawai Block in the spring of 1972 using the jackup rig "Fuji". Both of these wells were abandoned after encountering no shows of oil or gas.

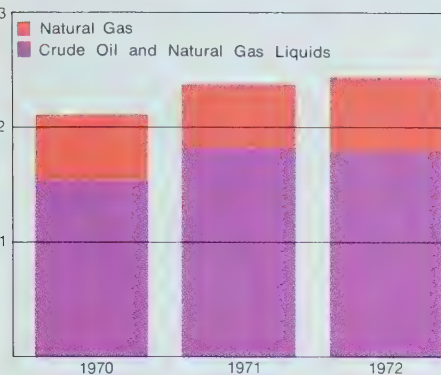
Bow Valley increased its interest in the Karimata block off the east coast of Sumatra from 12 1/2 percent to 37 1/2 percent at December 31, 1971. Bow Valley and its industry partners subsequently entered into an agreement with Oceanic Exploration Company under which Oceanic is committed to drill a minimum of three wells and must drill a total of five wells to earn a 50 percent interest in the contract area. Drilling of the first well under the agreement is expected to commence in July 1972 using the jackup rig "Fuji".

In April 1972, Bow Valley was officially awarded an onshore contract area containing 68,000 acres in the South Palembang basin of southern Sumatra. Bow Valley holds a 100 percent working interest in the lands and is making arrangements to commence seismic operations.

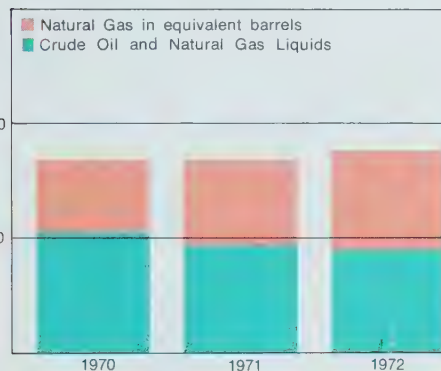
TUNISIA

Bow Valley holds a 33 1/3 percent interest in a recently awarded concession in the Gulf of Hammamet off the eastern coast of Tunisia. This permit contains 185,774 acres and a marine seismic program is scheduled to be conducted on these properties prior to the end of the 1972 calendar year.

Hydrocarbon Sales — Less Royalties



Proven Hydrocarbon Reserves — Less Royalties



OPERATIONS

Oil and gas production is exclusively derived from properties within Canada. Net crude oil production after royalties for the 1972 fiscal year amounted to 657,389 barrels (1,796 bbls/day) which represented a six percent decrease over the 697,002 barrels (1,910 bbls/day) produced during the previous year. The reduction was primarily due to natural declines in production rates in several older fields which are under unitized operations. Net natural gas production after royalties for the same period of 5,110 MMcf (13,962 Mcf/day) was 11 percent higher than the 4,624 MMcf (12,668 Mcf/day) produced during 1971. Net production of natural gas liquids after royalties amounted to 31,738 barrels (87 bbls/day) representing a seven percent decrease over the 33,952 barrels (93 bbls/day) produced last year. Despite the slight decrease in the production of crude oil and natural gas liquids, net oil and gas sales after royalties reached record levels as depicted in the adjoining graph. Increased sales were due mainly to additional gas revenues derived from the company's Craigend gas field which went on stream in November 1971 and to higher crude oil prices realized over the full year.

At May 31, 1972, net proven crude oil reserves after deducting all royalties, as determined by McDaniel Consultants (1965) Ltd., were 8,755,824 barrels or five percent lower than reserves of 9,207,600 barrels one year earlier. Net proven gas reserves of 147 billion cubic feet were 20 percent higher than reserves of 123 billion cubic feet last year and reserves of natural gas liquids amounted to 318,862 barrels or four percent lower than similar reserves of 333,000 barrels one year earlier. Although reserves of crude oil and natural gas liquids were lower than similar reserves the previous year, the decline was more than offset by the increase in natural gas reserves. Converting gas reserves to equivalent barrels of oil based on market prices, total proven reserves of hydrocarbons at May 31, 1972, were 17,824,517 barrels, eight percent higher than the previous year's total of 16,493,563 and the highest in the company's history.

Bow Valley had an interest in the drilling of 56 gross wells or 22 net wells during the past year. Of these wells, 37 gross wells or 16 net wells were completed as oil or gas wells and the remainder were abandoned.

At May 31, 1972, Bow Valley held working interests in approximately 138,000,000 gross acres equivalent to 14,000,000 net acres in Canada and nine foreign countries. Included in these figures are approximately 60,000,000 gross acres of onshore and offshore properties located in the Canadian Arctic Islands held by Panarctic Oils Ltd. in which Bow Valley has a 2.24 percent interest.

The most significant changes in the company's land portfolio which occurred during the 1972 fiscal year were the additional properties acquired off the Canadian East Coast, onshore southern Sumatra, offshore Tunisia, and in the United Kingdom and Norwegian sectors of the North Sea, the Shetland Islands and the Celtic Sea.

During the 1972 fiscal year, Bow Valley spent, for its own account, \$4,480,918 on oil and gas exploration and development as compared to \$5,482,045 spent during the previous year.



Welding on a waterflood pump station installation

Energy Industries . . . Service, Construction and Manufacturing Activities

OIL AND GAS CONTRACT DRILLING

Bow Valley's oil and gas contract drilling operations are conducted through three divisions of the company, Antelope Drilling, Hi-Tower Drilling and Sedco Drilling. The divisions drilled a total of 1,775,817 feet in fiscal 1972 compared to 1,478,519 feet in the previous year. These figures exclude footage drilled by the Commonwealth - Hi-Tower Arctic Joint Venture in the Arctic Islands. While footage drilled was up in the latest fiscal year compared to the preceding period, gross revenues of the three divisions showed only slight improvement. In fiscal 1972 a larger percentage of the drilling business was attributable to shallow wells in comparison with the preceding year.

The Sedco division experienced an active year with shallow drilling activity in Montana and north central Alberta, seismic drilling in the Arctic and vibrator work in the Northwest Territories, Yukon and northwest Alberta. As of June 1st, 1972 the Sedco division absorbed the Antelope division whose rigs are located in southern Saskatchewan.

Hi-Tower's activity continues to centre in northwest Alberta and northeast British Columbia where the division has fourteen rigs. A new 18,000' rig, Delta #1, will leave Hay River, N.W.T. by barge July 15th, 1972 and is scheduled to begin work for a major oil company in the Mackenzie Delta during the fall of 1972.

In the Arctic Islands, the Commonwealth - Hi-Tower Arctic Joint Venture, in which Bow Valley holds a 50% interest and acts as manager, drilled a total of 71,148 feet in fiscal 1972 compared to 43,283 feet last year. The Joint Venture is now sending a fourth rig to the Arctic on a two-year program, for a major oil company, to commence in October 1972. This new electric rig has the capacity to drill to 18,000 feet.

Bow Valley has a one-third interest in the DRILLARCTIC Joint Venture, formed recently to own and operate a new 16,000' drilling rig which is under contract in the Arctic Islands and is scheduled to commence operations in the fall of 1972.

Work is progressing on schedule on the offshore semi-submersible drilling rig being built in Norway for Oslo Drilling A/S in which Bow Valley has a 20% interest and manages operations. This unit is scheduled to begin drilling in the North Sea in early 1974.

PIPELINE CONSTRUCTION AND GAS PLANT MAINTENANCE

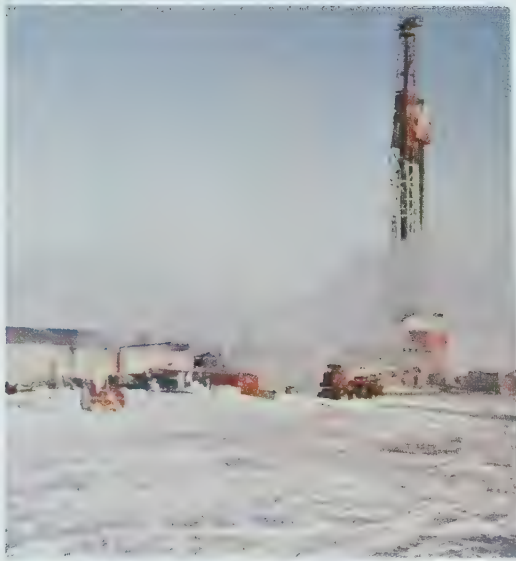
Wonderly & Kershaw Petrochemical Services Ltd., Bow Valley's pipeline construction and gas plant maintenance subsidiary, experienced a good year in fiscal 1972. During the year the demand for Canadian oil and gas continued to improve which, in turn, stimulated the construction of additional pipeline systems.

During the year Wonderly & Kershaw constructed 100 miles of 8" condensate line for Imperial Oil, a 16" looping project for Federated Pipe Lines, a 16" looping project for Imperial Oil, and a number of small projects. Wonderly & Kershaw's plant maintenance division maintains plants for Shell Canada at Jumping Pound, Aquitaine at Rainbow Lake and Ram River, and Gulf Oil Canada's Refinery at Edmonton.

The outlook for Wonderly & Kershaw's operations in fiscal 1973 remains good. During the early part of 1972 an expansion program was instituted to accommodate higher levels of activity. Subsequent to the fiscal year end a further expansion has been approved which should favourably affect operating results in fiscal 1973.



Hi-Tower rig on the plains of Alberta



Commonwealth Hi-Tower Rig 1 on location at Kristoffer Bay in the Canadian Arctic



Eskimo crews unloading casing from ship's hold at Resolute Bay



Wonderly & Kershaw installing a pipeline across the North Saskatchewan River

Light turbo jet of Bow Helicopters operating in the arctic





Unloading supplies at Resolute Bay

OILFIELD EQUIPMENT AND SUPPLY

In fiscal 1972 Cardwell Supply Ltd. laid the foundation for what is expected to be a substantially higher level of business in fiscal 1973 as a consequence of the increased tempo of Arctic exploration. The focal point of a large part of Cardwell's activity is Resolute Bay in the Arctic Islands where Cardwell operates a depot for the Bow Valley/Acres/Santa Fe-Pomeroy Arctic Services Joint Venture. A successful Sea Lift, consisting of some 3,500 tons of materials, was conducted in August 1971.

Cardwell is currently involved in planning Sea Lift and procurement operations for the 1972 shipping season during which approximately 12,000 tons of materials and supplies including the new rig for DRILLARCTIC is being organized and shipped to Resolute Bay, Axel Heiberg and Ellesmere. Materials originating in Dusseldorf, Germany; Halmstadt, Sweden and Glasgow, Scotland will be marshalled at Aalborg, Denmark for the first phase of the journey and will move via a trans-shipment operation at Holsteinsborg, Greenland to Canada's Arctic Islands. This vessel will then join another ship originating in the U.S. gulf ports of Houston and New Orleans and will move the DRILL-ARCTIC program requirements to Depot Fiord on Axel Heiberg Island and Eureka before diverting to Resolute Bay via Holsteinborg. A third vessel will originate in Eastern Canada and move directly to Resolute.

During the early part of 1972 Cardwell was appointed Canadian and Alaskan Arctic agents of J. Lauritzen of Copenhagen, owners of the "Dan" fleet of ice strengthened cargo vessels. The connection with Lauritzen enables Cardwell to participate in international shipping into Canadian and Alaskan Arctic coastal waters.

AVIATION SERVICES

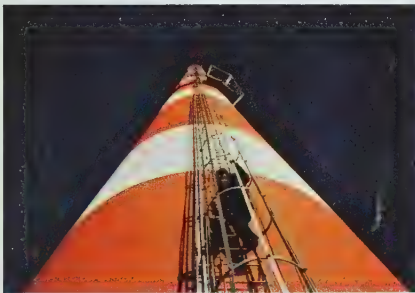
Bow Helicopters Ltd., Bow Valley's aviation subsidiary, operates fifteen helicopters of which ten are jet-powered. The company's sales in fiscal 1972 were slightly higher than in the preceding year. Profits, however, were lower due to higher operating costs. During the year Bow Helicopters continued its program of fleet refinement with the acquisition of two Bell 212 twins, two Bell 206Bs and the disposal of some obsolete equipment. Twin-engine reliability is becoming a major consideration for most Arctic programs where the charterer is confronted with stretches of open water and on sling-ing projects, such as rig assembly and transmission tower erection, where prolonged hovers are a contract criterion.

Bow Helicopters has developed new helicopter techniques and equipment applicable to logging operations. A Bell 212 is currently "yarding" in British Columbia on a development program and if contract results meet expectations, the program will provide increased utilization of equipment.



Installation of a Flame-Master roof top heating unit

Sulphur compound monitoring system on an Alberta gas plant stack



Bow Helicopters supplying the Commonwealth Hi-Tower Rig 4 at the National Petroleum Show



ENVIRONMENTAL CONTROL

Western Research & Development Ltd. continued to expand its business in fiscal 1972 with annual sales exceeding \$1,000,000 for the first time.

In conjunction with Dominion Instruments Ltd., another Bow Valley subsidiary, work on the Continuous Stack Emission Monitoring (CSEM) system project was primarily directed at product refinement for application as a sulphur dioxide emission monitor in the sulphur recovery process, and development of the system for monitoring oxides of nitrogen emission and other air pollutant contaminants.

During the year the company was particularly active in process evaluation and performance testing of sulphur recovery plants. A program under a Federal Government grant for automatic process control and evaluation of the sulphur recovery process has progressed to the point where the analytical component of the prototype system is scheduled to receive field trials at an operational plant.

Western Research & Development Ltd. expanded and broadened its activity in environmental control through soil, water, noise and air pollution projects. Ambient air quality monitoring services were extended and included the design and installation of two new networks for the telemetering of air pollution data to a central control location. A total of three such systems has now been completed using both radio and buried conductors for transmission purposes. The environmental engineering and consulting group engaged in source emission inventories for the Cities of Calgary and Edmonton, air pollution studies for the Athabasca Tar Sands project, and source emission studies for several firms in the thermal power generating industry.

MANUFACTURE OF HEATING AND COOLING EQUIPMENT

Bow Valley's Flame-Master division showed good growth in sales and earnings during fiscal 1972 in reflection of an active period in the construction industry in Canada. During the year the division's new travel trailer heater was well-received in the marketplace. Another development of significance was the design and manufacture of a series of roof-top heating and air conditioning units as a consequence of a joint program between Flame-Master and a Bow Valley subsidiary, Atmos Engineering Sales Ltd.

Environmental control research





Elworthy's new office addition in Vancouver

Mining and Forest Products Industry . . . Service, Engineering and Manufacturing Activities

MINING CONTRACT DRILLING

Bow Valley's mining contract drilling operations are conducted by Connors Drilling Ltd., Griffith Bros. Drilling Limited and MacPherson Drilling Co., Inc.. A total of 570,687 feet was drilled in fiscal 1972. In the preceding year, when MacPherson Drilling Co., Inc. was acquired in the middle of the year, footage drilled amounted to 549,231 feet. General economic conditions and government policies affecting taxation of mining companies and foreign investment policies in reference to uranium companies had an adverse effect on the level of mining exploration activity in Canada during the year just ended.

MANUFACTURING ACTIVITIES

Bow Valley's manufacturing activities on the west coast involve two subsidiary companies, Mainland Foundry & Engineering Ltd. and Elworthy & Company Ltd., primarily serving the forest product industry and Wesdrill Equipment, a Bow Valley division which manufactures diamond bits for the mining industry.

Mainland experienced an excellent year in fiscal 1972 while Elworthy's business also showed improvement over the preceding year. Wesdrill became a division of Bow Valley on September 1, 1971 and showed a profit for the last nine months of the fiscal year.

An expansion program is now underway at Mainland's foundry involving additional facilities and an electric furnace which will permit expansion of the product line to include mild steel and ductile iron castings. Initial production of these new products is expected during the last quarter of fiscal 1973.



Affiliated Companies

As of the fiscal year end, Bow Valley owned 24.8% of the common shares of CDP Computer Data Processors Ltd. and 10.7% of the common shares of Western Rock Bit Company Limited.

CDP is a Calgary-based exploration data processing company with specialized capability in the processing and interpretation of geophysical, geological and petroleum engineering information.

Western Rock Bit manufactures a full complement of bits for use in oil, gas and seismic drilling operations. The company manufactures a number of associated products and fabricates liquefied petroleum pressure vessels.



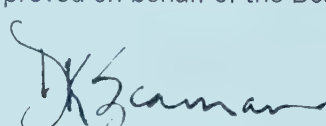
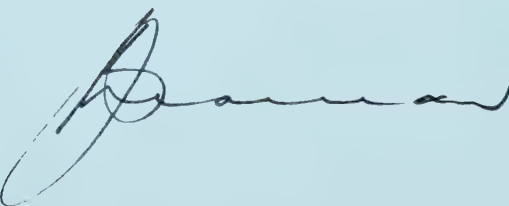
Core recovery by Connors Drilling in central British Columbia



Wedrill technician setting diamond drilling bits

Consolidated Balance Sheet

May 31, 1972 (Canadian dollars)

	Assets	
	<u>1972</u>	<u>1971</u> (as restated)
Current Assets		
Cash, including deposit receipts (Note 3)	\$ 3,161,051	\$ 5,555,072
Accounts receivable—		
Trade	8,460,742	7,011,679
Other	733,168	1,394,793
Inventories (Note 4)	6,102,929	4,957,464
Prepaid expenses	576,926	335,983
	<u>19,034,816</u>	<u>19,254,991</u>
Capital Assets, at cost (Notes 1 and 5)	55,586,777	47,835,840
Less—Accumulated depreciation and depletion	<u>20,788,969</u>	<u>18,099,527</u>
	34,797,808	29,736,313
Goodwill (Notes 1 and 2)	4,122,174	3,920,752
Other Assets and Deferred Charges		
Interest in Panarctic Oils Ltd., at cost (Note 6)	1,719,476	1,719,476
Investments (at cost) in and advances to other companies	1,037,019	476,495
Sundry	283,440	157,375
Unamortized deferred charges (Note 1)	383,499	482,532
	<u>3,423,434</u>	<u>2,835,878</u>
Approved on behalf of the Board:		
 Director		
 Director		
	<u><u>\$61,378,232</u></u>	<u><u>\$55,747,934</u></u>

Liabilities		
	<u>1972</u>	<u>1971</u> (as restated)
Current Liabilities		
Operating bank loans, (6.5% - 1972, 7% - 1971) secured (Note 3)	\$ 3,864,332	\$ 3,924,853
Bankers' acceptances (6.4% - 1972, 4.7% - 1971) secured (Note 3)	1,140,000	2,200,000
Accounts payable and accrued	7,056,713	5,591,141
Dividends payable	—	231,539
Estimated income taxes payable	56,208	—
Long term debt due within one year	2,594,265	2,063,240
	<u>14,711,518</u>	<u>14,010,773</u>
Long Term Debt (Note 8)	10,398,788	6,302,335
Deferred Revenue	239,895	360,500
Deferred Income Taxes (Note 7)	836,903	743,265
Shareholders' Equity		
Share capital (Note 9) —		
5½% Cumulative redeemable preferred shares		
Series A of a par value of \$20 each—		
Authorized and issued—100,000 shares		
Outstanding—84,640 shares (1971 - 87,540)	1,692,800	1,750,800
5% Cumulative redeemable convertible second		
preference shares of a par value of \$100 each—		
Authorized, issued and outstanding—		
100,000 shares	10,000,000	10,000,000
Common shares of no par value—		
Authorized—7,000,000 shares		
Issued and outstanding—4,666,939 shares	15,055,727	14,554,651
(1971 - 4,630,484)		
Capital redemption reserve fund, on redemption		
of preferred shares	307,200	249,200
Contributed surplus, on redemption of preferred shares	65,484	51,954
Retained earnings (Notes 7 and 12)	8,069,917	7,724,456
	<u>35,191,128</u>	<u>34,331,061</u>
Contingent Liabilities and Commitments (Note 13)		
	<u><u>\$61,378,232</u></u>	<u><u>\$55,747,934</u></u>

See notes to financial statements.

Consolidated Statement of Income

For the year ended May 31, 1972 (Canadian dollars)

	<u>1972</u>	<u>1971</u>
Revenue		
Contract drilling—		
Oil and gas	\$12,788,372	\$12,213,225
Mining	4,370,402	4,426,603
Sales of oilfield equipment and supplies	4,974,752	4,690,224
Oil and gas sales, less royalties	2,459,841	2,387,962
Aviation services	2,507,830	2,315,674
Heating equipment sales	2,336,083	1,447,583
Engineering, forest products equipment and foundry sales	11,576,786	8,178,688
Pipeline construction and plant maintenance	5,220,204	2,582,760
Pollution control equipment and services	1,054,957	603,096
Investment	233,289	651,536
Gain on trading of oil and gas properties (Note 10)	364,226	312,720
Other	306,235	393,931
	<u>48,192,977</u>	<u>40,204,002</u>
Costs and Expenses		
Costs of sales	16,332,805	12,740,298
Operating costs	19,732,324	16,533,770
General and administrative	5,950,848	5,369,268
Depreciation (Note 1)	2,709,959	2,457,206
Depletion (Note 1)	1,047,001	1,024,950
Mining properties abandoned	9,080	76,733
Amortization of deferred charges (Note 1)	213,221	202,884
Interest—On long term debt	587,493	507,861
—Other	404,770	398,443
	<u>46,987,501</u>	<u>39,311,413</u>
	1,205,476	892,589
Taxes on Income (Note 7)		
Current	97,880	220,266
Deferred	93,638	49,832
	<u>191,518</u>	<u>270,098</u>
Income Before Extraordinary Items	1,013,958	622,491
Extraordinary Items		
Gain on sale of land	449,514	—
Reduction of deferred income taxes	—	36,000
Loss on variation in foreign exchange rate	—	(299,211)
Amalgamation costs	—	(378,299)
	<u>449,514</u>	<u>(641,510)</u>
Net Income (Loss)	<u>\$ 1,463,472</u>	<u>\$ (19,019)</u>
Earnings (Loss) Per Common Share (Note 1)		
Income before extraordinary items	\$.09	\$.01
Extraordinary items . . . . .	.10	(.14)
Net Income (Loss)	<u>\$.19</u>	<u>\$ (.13)</u>

See notes to financial statements.

Consolidated Statement of Changes in Financial Position

For the year ended May 31, 1972 (Canadian dollars)

	<u>1972</u>	<u>1971</u> (as restated)
Source of Working Capital		
Operations—		
Income before extraordinary items	\$ 1,013,958	\$ 622,491
Add—Non-cash charges including depreciation, depletion, mining properties abandoned, amortization of deferred charges, gains or losses on disposal of capital assets and deferred income taxes	4,166,367	3,780,291
Working capital provided from operations before extraordinary items	5,180,325	4,402,782
Working capital provided from (used by) extraordinary items	965,309	(641,510)
Total working capital provided from operations	6,145,634	3,761,272
Share capital issued, less costs of issue—		
Common shares issued for cash (excluding shares issued on acquisitions)	501,076	632,066
Common shares issued on conversion of debentures	—	958,000
Issue of long term debt	6,299,001	3,806,494
Other	73,400	70,946
	<u>13,019,111</u>	<u>9,228,778</u>
Application of Working Capital		
Additions to capital assets, net —		
Land, buildings, drilling and other equipment	5,700,543	3,434,964
Oil and gas properties and equipment and mining properties (exclusive of oil and gas properties held for resale)	4,312,668	3,128,084
	10,013,211	6,563,048
Less - Proceeds of disposals	912,029	1,284,625
	9,101,182	5,278,423
Repayment of long term debt and change in current portion	2,346,412	2,708,000
Conversion of long term debt to common shares	—	958,000
Interest in Panarctic Oils Ltd.	—	587,273
Investments in and advances to other companies	585,775	270,925
Acquisition of net assets of Wesdrill Equipment Ltd. less working capital thereof	367,779	—
Investments in shares of subsidiary companies, less working capital thereof	—	477,155
Redemption of preferred shares	44,470	41,547
Dividends paid or payable	1,060,011	992,963
Decrease in deferred revenue	120,606	204,360
Other	313,796	273,550
	<u>13,940,031</u>	<u>11,792,196</u>
(Decrease) In Working Capital	(920,920)	(2,563,418)
Working Capital, Beginning of Year	5,244,218	7,807,636
Working Capital, End of Year	<u>\$ 4,323,298</u>	<u>\$ 5,244,218</u>

See notes to financial statements.

Changes in Components of Working Capital

For the year ended May 31, 1972 (Canadian dollars)

	<u>1972</u>	<u>1971</u> (as restated)
Increase (Decrease) in Current Assets		
Cash, including deposit receipts	\$(2,394,021)	\$(1,005,297)
Accounts receivable —		
Trade	1,449,063	(265,340)
Other	(661,625)	1,079,058
Inventories	1,145,465	1,174,426
Prepaid expenses	240,943	(202,545)
Net increase (decrease) in current assets	<u>(220,175)</u>	<u>780,302</u>
Increase (Decrease) in Current Liabilities		
Operating bank loans	(60,521)	2,239,809
Bankers' acceptances	(1,060,000)	1,100,000
Accounts payable and accrued	1,465,572	(794,108)
Dividends payable	(231,539)	231,539
Estimated income taxes payable	56,208	(319,570)
Long term debt due within one year	531,025	886,050
Net increase in current liabilities	<u>700,745</u>	<u>3,343,720</u>
(Decrease) in working capital	<u>\$ (920,920)</u>	<u>\$ (2,563,418)</u>

Consolidated Statement of Retained Earnings

For the year ended May 31, 1972 (Canadian dollars)

	<u>1972</u>	<u>1971</u>
Balance at beginning of year as previously reported	\$ 7,495,322	\$ 8,562,304
Adjustment of prior years' income taxes (Note 7)	229,134	229,134
Balance, beginning of year as restated	7,724,456	8,791,438
Net income (loss) for the year	1,463,472	(19,019)
	<u>9,187,928</u>	<u>8,772,419</u>
Deduct—		
Dividends paid or payable—		
Preferred Shares Series A (5½%)	94,699	97,779
Second Preference Shares (5%)	499,658	500,000
Common Shares (\$.10 per share)	465,654	395,184
Amount transferred to capital redemption reserve fund*	58,000	55,000
	<u>1,118,011</u>	<u>1,047,963</u>
Balance at end of year	<u>\$ 8,069,917</u>	<u>\$ 7,724,456</u>

* Pursuant to The Companies Act of Alberta.

See notes to financial statements.

Notes to Consolidated Financial Statements

May 31, 1972

1. Summary of Significant Accounting Policies

The following accounting principles and practices of Bow Valley Industries Ltd. and subsidiary companies are set forth to facilitate the understanding of data presented in the financial statements.

Principles of consolidation:

The consolidated financial statements include the accounts of Bow Valley Industries Ltd. and its subsidiaries (herein collectively called "Bow Valley"), all of which are wholly-owned, as well as Bow Valley's share of assets and liabilities, revenues and expenses of two joint ventures.

Capital assets (excluding oil and gas properties), and depreciation:

Additions, improvements and repairs and maintenance that significantly add to productive capacity or extend the life of an asset are capitalized. Other expenditures for repairs and maintenance are charged to income as incurred.

Depreciation of drilling and related equipment is calculated by the diminishing balance method mainly at the rate of 20%; oil and gas well and battery equipment by the straight-line method mainly at the rate of 10%; manufacturing, sales and service equipment by the diminishing balance method, mainly at the rate of 20%; helicopters and related equipment by the straight-line method mainly at the rate of 10% of cost less an estimated residual value equal to 40% of cost; buildings by the diminishing balance method at rates from 2½% to 7½%.

Oil and gas properties and depletion:

Since June 1, 1968 Bow Valley has followed the full cost method of accounting whereby all costs relating to the exploration for and development of oil and gas reserves, including exploration overhead, are capitalized whether productive or unproductive. Depletion is computed on the total of all such costs by the unit of production method based on the total estimated proven reserves of oil and gas. No gains or losses are ordinarily recognized upon the sale or disposition of oil or gas properties held for development purposes except under circumstances which result in major disposals of reserves. Gains or losses from the sale or disposition of oil and gas properties and rights held for resale are included in the consolidated statement of income.

Unamortized deferred charges:

Deferred charges of \$153,456 relating to Series A preferred share issue expense and long-term debt issue expenses, are being amortized over a period of ten years and over the terms of the issues respectively. The balance of deferred charges amounting to \$230,043, is being amortized over periods of three to five years.

Income taxes:

Certain charges to income in the financial statements differ in amounts from those deducted for tax purposes. In common with many other companies in the Canadian oil and gas industry the tax allocation basis of accounting is not followed for the timing differences that relate to oil and gas lease acquisition, exploration and drilling costs. However, Bow Valley does provide for the tax effects of timing differences relating to depreciation claimed for tax purposes in excess of book depreciation.

Goodwill:

Goodwill acquired prior to fiscal 1972 in the amount of \$3,920,752 is shown in the consolidated financial statements at cost. Goodwill acquired in fiscal 1972 is being amortized over twenty years using the straight line method and is shown at unamortized cost.

Earnings (loss) per common share:

Earnings per common share are calculated in accordance with Canadian practice on the basis of weighted average common shares of Bow Valley Industries Ltd. No material change would result assuming full dilution.

Primary earnings (loss) per common share, calculated in accordance with United States practice, would not be materially different.

2. Business Combination

Effective August 31, 1971 Bow Valley Industries Ltd. acquired the net assets of Wesdrill Equipment Ltd. for a cash consideration of \$528,122. Results of operations have been included in the statement of income from September 1, 1971 as follows:

Revenue	<u>\$692,881</u>
Net income	<u>\$ 33,814</u>

Goodwill acquired, in the amount of \$209,270, is being amortized over twenty years from the date of purchase.

3. Current Assets Subject to Operating Bank Loans, Liens and Bankers' Acceptances

Operating bank loans and bankers' acceptances are secured as follows:

- \$2,000,000 floating charge demand debenture on the current assets of a subsidiary and a \$2,000,000 chattel mortgage of the subsidiary and guarantees of Bow Valley Industries Ltd.
- Bow Valley Industries Ltd. and certain subsidiaries have given general assignments of receivables, an assignment of certain oil and gas production and an assignment of bank deposit receipts of approximately \$2,875,000 at May 31, 1972.

4. Inventories

Inventories, which are valued at the lower of cost or net realizable value, consist of the following:

	<u>1972</u>	<u>1971</u>
Finished goods	\$ 1,754,332	\$ 1,157,286
Work in progress	453,930	418,603
Raw materials	497,092	293,386
Materials and supplies	2,633,976	2,506,561
Oil and gas properties and rights held for resale	763,599	581,628
	<u>\$ 6,102,929</u>	<u>\$ 4,957,464</u>

5. Capital Assets

	<u>1972</u>			<u>1971</u>	
	<u>Cost</u>	<u>Accumulated depreciation and depletion</u>	<u>Net book Value</u>	<u>Cost</u>	<u>Accumulated depreciation and depletion</u>
Drilling and related equipment	\$16,421,192	\$ 9,459,848	\$ 6,961,344	\$14,752,270	\$ 8,727,736
Oil and gas properties and equipment	28,487,681	7,803,430	20,684,251	24,208,895	6,354,954
Manufacturing plant and equipment	1,867,441	1,092,013	775,428	1,838,662	927,955
Sales and service equipment	3,202,170	1,390,460	1,811,710	2,184,089	1,100,974
Helicopters and related equipment	3,328,445	497,581	2,830,864	2,530,043	543,008
Land and buildings	2,279,848	545,637	1,734,211	2,321,881	444,900
	<u>\$55,586,777</u>	<u>\$20,788,969</u>	<u>\$34,797,808</u>	<u>\$47,835,840</u>	<u>\$18,099,527</u>

6. Interest in Panarctic Oils Ltd.

Bow Valley has a 2.24% interest in Panarctic Oils Ltd. (a venture organized by private industry and the Government of Canada to explore for oil and gas in the Arctic Islands of Canada) the cost of which amounted to \$1,719,476. Further contributions may be required in the future if the above percentage interest is to be maintained. Panarctic Oils Ltd. is, at present,

in the exploratory stage of operations. The most recent published financial statements indicate that all costs and expenses have been capitalized and that Panarctic Oils Ltd. is deemed to have realized no profit and sustained no loss to December 31, 1971.

Panarctic Oils Ltd. shares are closely held, are not generally traded and no quoted market value exists. In the opinion of management the fair value of Bow Valley's interest exceeds cost.

7. Income Taxes

As indicated in note 1, Bow Valley does not follow the tax allocation basis of accounting. Had such basis of accounting been followed for the two years ended May 31, 1972, the provisions and net income would have been as follows:

	Provision for income taxes			Taxes applicable to extraordinary items	Resulting net income (loss)
	Current	Deferred	Total		
1971	\$220,266	\$377,832	\$598,098	\$ (30,000)	\$ (317,019)
1972	\$ 97,880	\$827,038	\$924,918	\$ —	\$ 730,072

The approximate accumulated income tax reductions relating to all timing differences were as follows:

	1972	1971
Deferred taxes under the tax allocation basis	\$ 6,900,000	\$ 6,200,000
Deferred taxes which have been reflected in the accounts and which relate mainly to tax depreciation claimed in excess of book depreciation	\$ 836,903	\$ 743,265

In 1972, Bow Valley successfully contested a reassessment of income taxes with respect to fiscal 1965 and 1967. An additional refund of taxes was also obtained for fiscal years prior to 1971. Retained earnings at the beginning of fiscal 1970 have been increased by \$229,134 with corresponding decreases of \$89,134 in income taxes payable and \$140,000 in deferred income taxes.

8. Long Term Debt

	1972	1971
Bow Valley Industries Ltd.:		
7% Sinking Fund Debentures Series A, due March 1, 1986, redeemable with annual sinking fund instalments of \$146,000 in 1973 and \$158,000 in each of the years 1974 to 1985 inclusive (Authorized - \$4,000,000)	\$ 3,040,000	\$ 3,203,000
Obligation as participant in Panarctic Oils Ltd., due on a call basis payable in fiscal 1972 and in fiscal 1973	352,585	650,001
Bank loans, at current interest rates - 6½% (8% - May 31, 1971), repayable at the rate of \$105,375 per month, (\$77,235 - May 31, 1971), secured mainly by oil and gas producing properties - *	6,510,000	2,443,461
Note payable on equipment purchases with interest at 7% due 1973 and 1974, secured by retention of title	136,312	214,216
10.7% Mortgage payable in annual instalments of \$26,760	191,780	—
Other notes payable, 1973 to 1977	250,000	15,000
	<u>10,480,677</u>	<u>6,525,678</u>

Subsidiaries:

Bank loans, at current interest rates - 6½% - 8% (8% - May 31, 1971), repayable at the rate of \$46,935 per month, secured by parent company (Bow Valley Industries Ltd.) guarantee - *	2,028,926	1,129,366
Notes payable on equipment purchases with interest rates ranging from 10% to 15.5%, due 1973, secured by retention of title	12,845	103,079
4% Note payable in annual instalments of \$65,395, secured by parent company (Bow Valley Industries Ltd.) guarantee	260,298	326,976
7% Debenture, repayable at the rate of \$3,461 per month including interest, secured by a fixed and floating charge on that subsidiary's assets	130,380	162,218
Other long term obligations, provisions and mortgages, payable 1973 to 1976, secured by those subsidiaries' lands and buildings	79,927	118,258
	<u>2,512,376</u>	<u>1,839,897</u>
	12,993,053	8,365,575
Less: Amount due within one year	2,594,265	2,063,240
	<u>\$10,398,788</u>	<u>\$ 6,302,335</u>

* The terms of the bank loans extend up to 1978, but the banks reserve the right to call the loans on demand.

The 7% Sinking Fund Debentures Series A are secured by a first floating charge on all the Company's undertaking subject to permitted encumbrances.

The aggregate maturities of long term debt in each of the five years subsequent to May 31, 1972 are as follows:

1973 - \$2,594,265 1974 - \$2,100,586 1975 - \$1,952,078 1976 - \$1,895,488 1977 - \$1,545,791

9. Share Capital, Share Purchase Warrants and Share Options

5½% Cumulative Redeemable Preferred Shares Series A:

Bow Valley Industries Ltd. is required to expend \$40,000 per year (or such lesser amount as would increase the Fund to \$80,000) as a Series A Preferred Share Purchase Fund for the purchase for redemption or retirement of its 5½% Cumulative Redeemable Preferred Shares Series A, provided such shares are available in the open market for purchase at a price not exceeding their par value plus reasonable cost of acquisition. The Series A Preferred Shares are subject to redemption at any time at \$21 per share. On liquidation, dissolution or winding up they rank prior to the common and second preference shares and holders are entitled to receive \$21 per share plus accrued unpaid dividends.

5% Cumulative Redeemable Convertible Second Preference Shares:

The 5% Cumulative Redeemable Convertible Second Preference Shares of a par value of \$100 each are convertible at any time prior to April 2, 1979 into common shares at an initial conversion price of \$30 per common share (3⅓ common shares for one preference share). These shares rank junior to the Series A Preferred Shares and are subject to redemption on or after April 1, 1974 at \$105 per share, plus accumulated unpaid dividends, except that during the period from April 1, 1974 to April 1, 1979 redemptions are subject to deferral under certain conditions.

On or before March 31, in each year commencing with the year 1980, Bow Valley Industries Ltd. is required to set aside as a Sinking Fund an amount equal to 5% of the par value of the Second Preference Shares outstanding at the close of business on April 1, 1979 for the purpose of either redeeming or purchasing the shares.

The following table sets out the changes in issued common share capital during the year ended May 31, 1972:

	Number of shares	Amount
Balance, May 31, 1971	4,630,484	\$14,554,651
Shares issued for cash upon exercise of options	36,455	501,076
Balance, May 31, 1972	<u>4,666,939</u>	<u>\$15,055,727</u>

Of the authorized but unissued common shares 589,846 were reserved at May 31, 1972 for the following:

- (a) Outstanding warrants which entitle the holders thereof to purchase an aggregate of 912 common shares of Bow Valley Industries Ltd. at \$1.875 per share to May 31, 1973.
- (b) Outstanding warrants which entitle the holders thereof to purchase an aggregate of 22,286 common shares at \$42.50 per share of which 19,339 expire on September 22, 1974 and 2,947 on February 16, 1975.
- (c) Options granted, or to be granted, as to an aggregate of 213,315 common shares of Bow Valley Industries Ltd. to officers and employees of Bow Valley under the terms of the Bow Valley Industries Ltd. Incentive Stock Option Plan.
- (d) 5% Cumulative Redeemable Convertible Second Preference shares convertible into, initially, 333,333 common shares of Bow Valley Industries Ltd.
- (e) Further consideration with respect to the acquisition of Western Research & Development Ltd. amounting to 20,000 common shares (Note 12).

As at May 31, 1972 the details of common shares under option are as follows:

Date option granted	Number of shares	Option Price		Market value date of grant	
		Per share	Total	Per share	Total
November 2, 1967	4,000	\$ 5.00	\$ 20,000	\$ 4.35	\$ 17,400
May 5, 1969	22,925	25.89	593,528	27.25	624,706
September 24, 1969	300	18.75	5,625	19.75	5,925
November 13, 1969	1,800	17.50	31,500	16.75	30,150
May 12, 1970	3,300	12.83	42,339	13.50	44,550
February 23, 1971	8,350	16.03	133,850	17.75	148,213
June 14, 1971	250	21.61	5,403	22.75	5,688
September 29, 1971	915	25.89	23,689	27.25	24,934
November 30, 1971	67,120	23.87	1,602,154	25.15	1,688,068
May 18, 1972	7,075	28.74	203,335	30.25	214,019
	<u>116,035</u>				

The following table sets out details regarding options exercised during the year ended May 31, 1972:

Date granted	Number of shares	Option Price		Market value date of exercise	
		Per share	Total	Per share	Total
November 2, 1967	4,000	\$ 5.00	\$ 20,000	\$26.375	\$ 105,500
December 14, 1967	1,000	9.03	9,030	29.75	29,750
May 29, 1968	10,000	10.21	102,100	27.50	275,000
May 5, 1969	400	25.89	10,356	29.625	11,850
November 13, 1969	3,320	17.50	58,100	23.625 to 29.75	87,580
May 12, 1970	1,950	12.83	25,018	23.125 to 32.00	59,188
February 23, 1971	5,700	16.03	91,371	21.75 to 32.50	162,911
April 30, 1971	10,000	18.29	182,900	29.75	297,500
September 29, 1971	85	25.89	2,201	32.25	2,741
	<u>36,455</u>		<u>\$501,076</u>		<u>\$1,032,020</u>

Options are exercisable within a period of five years from the date of the grant. The value assigned to shares on the exercise of options is the option price multiplied by the number of shares issued. No charges are made against income.

10. Gain on Trading of Oil and Gas Properties

This account consists of net gains of \$29,851 (1971 – \$312,720) from the sale or disposition of oil and gas properties and rights held for resale. Also included is an amount of \$334,375 (1971 – nil) received from the previous owner when Bow Valley acquired a further interest in a foreign exploration concession which carried with it certain work commitments. Subsequent to this acquisition Bow Valley entered into an arrangement whereby another company undertook a drilling program in exchange for the right to earn a portion of Bow Valley's interest. In the opinion of management the drilling program undertaken will satisfy the work commitments with respect to the acquired interest.

11. Remuneration of Directors and Senior Officers

The aggregate direct remuneration received by the directors and senior officers of Bow Valley amounted to \$270,048 in fiscal 1972. (1971 - \$320,381).

12. Restrictions on Dividends

Under the terms of the Trust Deed for the 7% Sinking Fund Debentures Series A of Bow Valley Industries Ltd. and the terms of the Series A Preferred Shares, dividends on common shares shall not be declared or paid:

- If after giving effect to such declaration or payment, the aggregate of the consolidated retained earnings and consolidated capital surplus of Bow Valley will be less than \$3,000,000; and
- Unless after giving effect to such dividends the amount of the consolidated retained earnings will be at least 125% of the par value of all of the Series A Preferred Shares and all preferred shares ranking in priority thereto or equally therewith then issued and outstanding.

At May 31, 1972, approximately \$5,000,000 of the consolidated retained earnings was free of these restrictions.

13. Contingent Liabilities and Commitments

At May 31, 1972 Bow Valley Industries Ltd. and/or one or more of its subsidiaries were contingently liable as follows:

- (a) to the extent of approximately \$1,205,000 representing the liabilities of the co-owners in the joint ventures (Note 1), but against which Bow Valley would have a claim against the other co-owners and the interest of the co-owners in the joint venture assets.
- (b) as guarantor of discounted conditional sales contracts and other indebtedness of third parties in the amount of \$333,013.

On July 3, 1970, a statement of claim for approximately \$770,000 was issued against a subsidiary (Bow Helicopters Ltd.) relating to an accident in July 1969. On July 29, 1970, a further statement of claim for approximately \$1,038,000 was issued against the said subsidiary relating to the same accident. Bow Valley's counsel has advised that, based upon preliminary investigation, such claims are either fully covered by insurance or to the extent not covered, the subsidiary has a meritorious defence and should prevail at trial. A further statement of claim for approximately \$18,000 plus undetermined damages has been issued against Bow Helicopters Ltd. relating to the same accident. Counsel for Bow Helicopters Ltd. has advised that, from the information conveyed to them, there is a valid defence to the action.

Pursuant to the agreement for the purchase of the outstanding shares of Atmos Engineering Sales Ltd., an amount of \$100,000 will be payable by Bow Valley Industries Ltd. to the vendors subject to certain conditions being met, including earnings tests for the five year period ending May 31, 1975.

Pursuant to the agreement for the purchase of the outstanding shares of Western Research & Development Ltd. 5,500 common shares of Bow Valley Industries Ltd. are to be issued to the vendors in 1975 and 4,500 common shares are to be issued to the vendors in 1980. Subject to certain conditions being met, including earnings tests for periods ending in 1975 and in 1980, a further 10,000 common shares of Bow Valley Industries Ltd. are to be issued to the vendors. Should such earnings of Western Research & Development Ltd. reach a certain level by 1975, the total 20,000 shares are to be issued in 1975.

Auditors' Report

To the Shareholders of
BOW VALLEY INDUSTRIES LTD.

We have examined the consolidated balance sheet of Bow Valley Industries Ltd. and subsidiary companies as at May 31, 1972 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at May 31, 1972 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

CALGARY, Alberta
July 12, 1972

PRICE WATERHOUSE & CO.
Chartered Accountants

Five Year Financial Summary

	<u>1972</u>	<u>1971</u>	<u>1970*</u>	<u>1969*</u>	<u>1968*</u>
Gross income	\$48,192,977	\$40,204,002	\$44,738,773	\$34,797,030	\$28,338,789
Depreciation and depletion	3,756,960	3,482,156	2,795,663	2,049,640	1,836,565
Income before extraordinary items	1,013,958	622,491	2,010,144	1,364,451	727,106
Extraordinary items - income (expense)	<u>449,514</u>	<u>(641,510)</u>	<u>—</u>	<u>251,119</u>	<u>400,068</u>
NET INCOME (LOSS)	1,463,472	(19,019)	2,010,144	1,615,570	1,127,174
Shares outstanding at year-end					
Common	4,666,939	4,630,484	4,430,496	4,244,782	4,015,822
Preferred, Series A	84,640	87,540	90,290	92,980	94,980
Second Preference	100,000	100,000	100,000	100,000	—
PER COMMON SHARE (1)					
Cash flow	\$.99	.84	1.04	.82	.80
Income before extraordinary items . . . . .	.09	.01	.33	.30	.18
Extraordinary items . . . . .	.10	(.14)	—	.06	.11
Net income . . . . .	.19	(.13)	.33	.36	.29
Dividends per share					
Common (pre-pooling)	\$.10	.10	.10	.10	.10
Preferred, Series A	1.10	1.10	1.10	1.10	1.10
Second Preference	5.00	5.00	5.00	—	—

(1) Based on the average number of common shares outstanding during the respective years (1972 - 4,651,669; 1971 - 4,544,507; 1970 - 4,376,295; 1969 - 4,155,360; 1968 - 3,504,293) and after dividend requirements on Series A Preferred Shares and Second Preference Shares.

* As restated for poolings of interest and prior period adjustments.



Bow Valley Industries Ltd. Annual Report 1972

AR31

**INTERIM REPORT
TO
SHAREHOLDERS**

SIX MONTHS ENDED
NOVEMBER 30, 1972





**TO THE SHAREHOLDERS OF
BOW VALLEY INDUSTRIES LTD.**

In the second quarter of fiscal 1973 the net income and cash flow before extraordinary items were \$368,481 and \$1,303,590, respectively, whereas the same items last year were \$224,694 and \$965,818.

The service sector of Bow Valley is continuing to show improved results. Higher revenues, cash flow and net profits are attributable to an increase in Canadian exploration activity which in turn is reflected in the Company's servicing activities.

Since the report for the quarter ended August 31, 1972, winter drilling activity has accelerated in the Mackenzie Delta. Imperial Oil Limited has announced five drilling locations, and four of these tests have spudded. As of January 9, 1973, the reported depths of these wells were: Nuktak C-22, 8,840 feet; Umiak J-37, 4,801 feet; Ivik C-52, 7,440 feet; and the Mallik P-59, 146 feet.

Other operators in the Delta have also commenced their winter drilling programs. Shell Canada Limited has announced two locations, the Unipkat I-22 and the Niglintgak H-30. On January 9, 1973, the I-22 was drilling at 12,698 feet, and the H-30 was drilling at 3,566 feet. On December 6, 1972, Shell reported that it had encountered a hydrocarbon zone at 2,500 feet in the H-30 but that the significance of the zone would not be known until the well had been completed and the zone tested. This is about four miles south-east of Bow Valley's Permit W-949. Chevron Standard Limited has announced a northwestern offset to the H-30, the Upluk C-21 which has not yet spudded. The consortium of Gulf Oil Canada Limited and Mobil Oil Canada, Ltd. was drilling at its Ya-Ya P-53 at 7,880 feet on January 9, 1973. On the same date, the group of Gulf, Shell, and Imperial was drilling at 10,452 feet at its Titalik K-26.

Of the wells now announced in the Mackenzie Delta, the Ivik C-52 is the closest to Bow Valley's acreage. This well has been staked approximately 2,500 feet east from Permit W-947.

As announced on November 6, 1972, Bow Valley and its partners in the Mackenzie Delta jointly decided not to accept any of the industry proposals submitted for exploration of their Delta acreage. A geophysical program including about 500 miles of seismic coverage, costing about \$1,500,000, will be carried out on the property this winter to assist in determining future policy for the exploration of these lands. It is expected that this seismic program will commence on January 15, 1973, and will be completed prior to May 15, 1973.

In the Arctic Islands, Panarctic Oils Ltd. and others are currently drilling at seven locations on Panarctic acreage. Panarctic confirmed on November 30, 1972, that it had discovered gas at the Panarctic Tenneco et al POR Hecla F-62 on the west side of the Sabine Peninsula on Melville Island about 30 miles west of the Drake Point gas field.

In southern Canada, Bow Valley is continuing its program of exploration drilling and acreage acquisition. The Company expects to drill 30-40 wells in Alberta over the 1972-73 winter drilling season. Of recent significance, Bow Valley participated in the discovery of a new gas field about ten miles northwest of Calgary. This well, the Amoco et al Z-1 Cross 11-35-26-1, discovered natural gas in the Elkton formation at about 7,500 feet and has established an absolute open flow rate of 36 million cubic feet per day. A confirmation well, the Amoco et al BB-1 Cross 6-2-27-1, has been drilled about one mile to the north; it has also discovered gas and production testing is underway. Bow Valley owns a 42.478 percent interest in the Z-1 and a 22.9167 percent interest in the BB-1. It is expected that these newly established reserves will be connected to market shortly, and further drilling is planned for the area.

In the North Sea, the Petronord 25/4-1X well in the Norwegian sector of the North Sea has reached total depth and testing has been completed. The Norwegian Ministry, which controls the release of well information, released the following statement on December 5, 1972:

"The Norwegian Ministry of Industry announced today that the Pan Ocean/Petronord group has completed testing of the Heimdal well in Block 25/4 of the Norwegian sector of the North Sea. Gas flow from an upper reservoir was at the rate of 956,000 cubic meters per day (33.8 million cubic feet per day), along with 87 cubic meters per day (545 barrels per day) of condensate.

Oil and gas and water were also recovered from tests carried out in separate deeper reservoirs.

Further evaluation, including analysis of results of the well and of a recently completed detailed seismic survey, will be necessary to determine the potential of the various reservoirs. Additional drilling is scheduled for 1973 on Block 25/4."

A total of 375 miles of additional seismic surveys has been shot in Block 25/4 since the discovery to assist in the selection of the next drilling location. This second well should spud in the first half of 1973. Bow Valley holds a 13½ percent working interest in Block 25/4 which is subject to reduction to 8 percent if the Norwegian government elects to subscribe to its full carried working interest.

Subject to rig availability, a Bow Valley group will drill its first exploratory well in the U.K. North Sea on Block 16/7 during the summer of 1973. Bow Valley holds a 35 percent interest in the block. In other U.K. waters, new seismic has been obtained in Block 103/22 in the Celtic Sea and in Block 206/14 west of the Shetland Islands. These seismic surveys are currently being interpreted.

In the Dutch North Sea, a group operated by Bow Valley was successful in its application for Block P-4. Bow Valley holds a 9.89 percent interest in this block containing 40,021 acres. Block P-4 was awarded on December 19, 1972, and a marine seismic program will be shot in early 1973.

All but 50 miles of an extensive marine geophysical survey previously announced for Bow Valley's acreage offshore from Abu Dhabi has been completed. Interpretation of this 1,626-mile survey is expected shortly, and a second exploratory test on this acreage may be drilled in 1973 if this data proves favorable. Bow Valley owns a 20 percent interest in this project.

In the Mediterranean area, a Bow Valley group has completed a seismic survey of 269 miles on its Kuriate concession in Tunisia. Seismic trades are being negotiated, and additional marine seismic is planned for early 1973. Seismic surveys were also completed on Bow Valley's acreage offshore from southern Sicily.

In the Republic of the Maldives, a Bow Valley group has negotiated a farmout to Entreprise de Recherches et d'Activités Pétrolières, Société Nationale des Pétroles d'Aquitaine, Viking Oil Resources Ltd., and Sunningdale Oils Limited of 65 percent of the interest in the licence held by Bow Valley and its partners. The farmout agreement must still be ratified by the Maldivian authorities, but it provides that the farmees pay \$250,000 to the original licence holders and conduct \$750,000 in exploration on the block prior to December 1973. The initial work program calls for a seismic reconnaissance survey of 1,350 miles in the first quarter of 1973. Bow Valley's interest in this project will be reduced to 4.375 percent when the farmees have earned their interest.

In Indonesia, Bow Valley exploration activity continues in several areas. On the Mentawai block on Sumatra's western coast, Marathon Oil Corporation completed a second exploratory well and based on the data gathered to date has decided not to exercise its option to continue. Accordingly, the interest earned by Marathon has now been reassigned to the Bow Valley group, and a new 1973 work program for Mentawai is being discussed with Pertamina, the Indonesian national oil company. During the first quarter of 1973, the Bow Valley group expects to initiate a 4,000-kilometer aeromagnetic survey. Bow Valley owns a 12½ percent interest in this block of 11,645,468 acres. Across Sumatra in the Karimata Straits, Oceanic Exploration Company completed its third well and has decided not to exercise its option to drill two further wells. Oceanic has, therefore, earned no interest and has withdrawn from the joint venture. The Bow Valley group is presently discussing a new 1973 work program for Karimata with Pertamina. During the first quarter of 1973, it will include a detailed seismic survey of the Bangka Straits. Bow Valley owns a 37½ percent interest in this block of 9,169,280 acres. Onshore Sumatra, Bow Valley has recently completed a 185-mile seismic program on its contract area in the Palembang basin of southern Sumatra. The contract area, known as Suban Djerigi, contains 68,000 acres and is owned 100 percent by Bow Valley. If the seismic interpretation is encouraging, the first drilling will commence in late 1973 or early 1974.

As announced on November 21, 1972, agreement has been reached to exchange 86,125 Bow Valley common shares for all the outstanding shares of Christopher Explorations Ltd., a private company whose principal asset is a 3 percent interest after payout in the Bow Valley/Numac Oil & Gas Ltd. acreage in the Mackenzie Delta. The exchange of shares is subject to approval of the appropriate regulatory authorities in Canada and the United States. The transaction, if completed, will increase Bow Valley's interest in the acreage before payout from 45 percent to 50 percent and after payout from 47 percent to 50 percent.

CONSOLIDATED STATEMENT OF INCOME

	3 months to Nov. 30, 1972	3 months to Nov. 30, 1971	6 months to Nov. 30, 1972	6 months to Nov. 30, 1971
INCOME				
Contract drilling	\$ 5,908,190	\$ 3,831,558	\$10,783,939	\$ 7,281,988
Foundry and engineering sales	3,271,313	2,745,634	6,309,513	5,459,195
Pipeline construction and plant maintenance	2,425,748	2,239,854	5,718,284	4,100,811
Sales of oilfield equipment and supplies	1,978,922	1,467,165	4,283,461	2,574,648
Heating equipment sales	970,643	681,000	1,642,805	1,240,101
Oil and gas sales, less royalties	663,403	566,095	1,232,064	1,140,896
Aviation services	157,756	634,128	1,126,112	1,715,389
Administrative and other income	434,793	326,317	644,325	533,092
Pollution control equipment and services	269,620	274,039	513,563	473,566
Investment income	36,978	53,547	79,319	123,745
	<u>16,117,366</u>	<u>12,819,337</u>	<u>32,333,385</u>	<u>24,643,431</u>
EXPENSES				
Operating, general and administrative, interest and amortization of deferred charges	<u>14,663,669</u>	<u>11,541,525</u>	<u>29,022,995</u>	<u>21,776,386</u>
OPERATING INCOME BEFORE DEPRECIATION AND DEPLETION				
	<u>1,453,697</u>	<u>1,277,812</u>	<u>3,310,390</u>	<u>2,867,045</u>
Depreciation	910,388	610,865	1,712,989	1,211,820
Depletion	283,900	254,845	528,018	510,545
	<u>1,194,288</u>	<u>865,710</u>	<u>2,241,007</u>	<u>1,722,365</u>
INCOME BEFORE TAXES AND EXTRAORDINARY ITEMS				
	<u>259,409</u>	<u>412,102</u>	<u>1,069,383</u>	<u>1,144,680</u>
Taxes on income - Current	78,627	203,694	219,120	340,409
- Deferred	(187,699)	(16,286)	(39,546)	206,949
	<u>(109,072)</u>	<u>187,408</u>	<u>179,574</u>	<u>547,358</u>
INCOME BEFORE EXTRAORDINARY ITEMS				
	<u>368,481</u>	<u>224,694</u>	<u>889,809</u>	<u>597,322</u>
Gain on sale of property	—	486,760	—	486,760
NET INCOME				
	<u>\$ 368,481</u>	<u>\$ 711,454</u>	<u>\$ 889,809</u>	<u>\$ 1,084,082</u>
Average number of common shares outstanding				
	4,668,739	4,641,542	4,668,739	4,641,542
Cash Flow before extraordinary items*				
	\$ 1,303,590	\$ 965,818	\$ 2,938,759	\$ 2,312,140
Per common share*				
Cash flow	28¢	21¢	63¢	50¢
Net income before extraordinary items	5¢	2¢	13¢	7¢
Extraordinary items	—	10¢	—	10¢
Net income	5¢	12¢	13¢	17¢

* After dividend requirements on Series "A" Preferred Shares and Second Preference Shares.
The above figures are subject to audit.

CONSOLIDATED SOURCE AND APPLICATION OF FUNDS

	Six Months to Nov. 30, 1972	Six Months to Nov. 30, 1971
SOURCE OF FUNDS		
Operations —		
Income before extraordinary items	\$ 889,809	\$ 597,322
Add - non-cash charges including depreciation and depletion, mining properties abandoned, amortization of deferred charges, gains or losses on disposals of capital assets and deferred taxes on income . .	2,345,500	2,099,712
	<u>3,235,309</u>	<u>2,697,034</u>
Proceeds from extraordinary items —		
Sale of land	—	1,000,055
Issue of long term debt	4,733,330	400,000
Issue of common shares	44,321	205,064
Miscellaneous	—	38,860
	<u>8,012,960</u>	<u>4,341,013</u>
APPLICATION OF FUNDS		
Additions to capital assets, net —		
Land, buildings, drilling and other equipment	5,830,442	1,507,094
Oil and gas properties and equipment and mining properties	2,651,652	2,478,731
	<u>8,482,094</u>	<u>3,985,825</u>
Less - proceeds of disposal (excluding extraordinary items)	847,331	158,076
	<u>7,634,763</u>	<u>3,827,749</u>
Repayment of long term debt and change in current portion	2,225,032	983,120
Investments in and advances to other companies	230,948	—
Acquisition of division less working capital thereof	—	317,709
Increase in deferred charges	154,482	—
Redemption of preferred shares	40,061	44,470
Cash dividends paid	530,156	531,140
Other	35,758	22,440
	<u>10,851,200</u>	<u>5,726,628</u>
INCREASE (DECREASE) IN WORKING CAPITAL	(2,838,240)	(1,385,615)
WORKING CAPITAL, BEGINNING OF PERIOD	4,323,298	5,155,084
WORKING CAPITAL, END OF PERIOD	<u>\$ 1,485,058</u>	<u>\$ 3,769,469</u>

Arctic Ocean

Beaufort Sea

Kugmallit Bay

Hendrickson Island

TUKTOYAKTUK

Lakes

Eskimo

MACKENZIE DELTA AREA

LAND HOLDINGS - MACKENZIE DELTA 270,242 GROSS ACRES
BOW VALLEY 60,804 NET LEASABLE ACRES*
BOW VALLEY PARTICIPANTS 74,317 NET LEASABLE ACRES*†

*Subject to 20% net carried interest to Numac Oil & Gas Ltd.
†Subject to 25% net profits interest to Bow Valley after payout.

Location Drilling Abandoned Oil Show
Gas Show Gas Discovery Oil Discovery Artificial Island Site

0 10 20 30 40
MILES

January 9th 1973

INUVIK

Hooper Island

Nuktak C-22

Kamatik

Pelly Island

Immerk

Ivik N-17

Ivik J-26

Garry Island

Mallik P-59

Mallik L-38

Ivik C-52

Upluk C-21

Umiak J-37

Niglintgak H-30

TAGLU

Unipkat I-22

Ya Ya P-53

Titalik K-26

Olivier Islands

W950

W946

W945

W943

W944

Mayogiak P-17

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